

Michigan Municipal Risk Management Authority

**Financial Report
with Supplemental Information
June 30, 2008**

Michigan Municipal Risk Management Authority

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Independent Auditor's Report

To the Board of Directors
Michigan Municipal Risk Management Authority

We have audited the accompanying statement of net assets of Michigan Municipal Risk Management Authority (a municipal joint venture) (MMRMA) as of June 30, 2008 and 2007 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of MMRMA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Municipal Risk Management Authority at June 30, 2008 and 2007 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Michigan Municipal Risk Management Authority's basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental and other supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

October 16, 2008

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis

This section of Michigan Municipal Risk Management Authority's annual financial report presents our discussion and analysis of MMRMA's financial performance during the year ended June 30, 2008. Please read it in conjunction with MMRMA's financial statements, which immediately follow this section.

Using this Annual Report

MMRMA is a public entity self-insurance pool that provides property and liability coverages to its participating members. Membership is limited to municipal corporations as defined by Michigan statute.

MMRMA is financed by contributions from its member municipal corporations and these contributions are based upon underwriting criteria and guidelines approved by the board of directors. MMRMA has three categories of membership: individual members - individual municipal corporations, each maintaining a separate self-insured retention; pool members - an association of risk-sharing members; and affiliated members - other Public Act 138 organizations that contract with MMRMA for certain coverages and services. The only current affiliated member is Michigan Community College Risk Management Authority, which contracts with MMRMA for reinsurance, claims adjusting, and underwriting services.

Individual members each maintain a minimum amount of funds, in an amount established by the executive director, on deposit with MMRMA. The pool, acting as a single member, also maintains funds on deposit with MMRMA. Members' funds on deposit are accounted for on the cash basis in the Members' Retention Fund and are used primarily to pay claims and related loss adjustment expenses that are obligations of the members.

Financial Overview

This annual statement consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required and other supplemental information.

MMRMA's activity is maintained in one fund. The basic financial statements, which follow this section, provide both long-term and short-term information about MMRMA's financial status. These basic financial statements report information about MMRMA using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. These statements reflect only the risk carried by MMRMA, which also includes any potential unrecoverable reinsurance claims.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

The three basic financial statements presented are as follows:

- **Statement of Net Assets** - This statement presents information reflecting MMRMA's assets, liabilities, and net assets and is categorized into current and noncurrent assets and liabilities. For the purpose of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date.
- **Statement of Revenue, Expenses, and Changes in Net Assets** - This statement reflects the operating and nonoperating revenue and expenses for the previous two fiscal years. Operating revenue consists primarily of member contributions, with the major sources of operating expenses being claims and claims adjustment expenses, general and administrative expenses, and reinsurance costs. Nonoperating revenue consists primarily of investment income.
- **Statement of Cash Flows** - This statement is presented on the direct method of reporting and reflects cash flows from operating activities and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash equivalents for the fiscal year.

Condensed Financial Information

The statements report MMRMA's net assets and how they have changed. Net assets - the difference between MMRMA's assets and liabilities - is one way to measure MMRMA's financial health or position. Over time, increases and decreases in MMRMA's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information is as follows:

	June 30		
	2008	2007	2006
Total Assets			
Current assets	\$ 317,087,351	\$ 341,465,508	\$ 267,073,910
Noncurrent assets	6,790,805	6,528,370	6,363,102
Total assets	323,878,156	347,993,878	273,437,012
Total Liabilities			
Total current liabilities	81,401,706	110,976,949	75,586,576
Total noncurrent liabilities	64,386,962	50,592,253	58,513,925
Total liabilities	145,788,668	161,569,202	134,100,501
Net Assets			
Invested in capital assets	509,855	397,761	276,050
Net unrestricted assets	177,579,633	186,026,915	139,060,461
Total net assets	<u>\$ 178,089,488</u>	<u>\$ 186,424,676</u>	<u>\$ 139,336,511</u>

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

	Year Ended June 30		
	2008	2007	2006
Revenue			
Member contributions - Net	\$ 36,897,711	\$ 35,805,804	\$ 34,900,859
Energy Choice Program revenue	3,266,116	3,639,056	5,069,062
Loss contributions from associated programs	1,806,707	1,600,684	1,549,100
Total revenue	41,970,534	41,045,544	41,519,021
Expenses			
Total risk management, underwriting, and other expense:	13,242,312	13,543,109	16,097,436
Total claims and related expenses	9,815,173	8,715,380	23,806,972
Total expenses	23,057,485	22,258,489	39,904,408
Operating Income	18,913,049	18,787,055	1,614,613
Nonoperating Revenue (Expense) - Net investment income (loss)	(11,619,381)	35,874,785	11,287,358
Distribution to Members	(15,628,856)	(7,573,675)	(3,696,996)
(Decrease) Increase in Net Assets	\$ (8,335,188)	\$ 47,088,165	\$ 9,204,975

In addition to net assets, when assessing the overall health of MMRMA, the reader needs to consider other nonfinancial factors such as the legal climate in the State of Michigan, the general state of the financial markets, and the level of risk prevention undertaken by MMRMA and its members.

MMRMA cannot control the first two factors. However, since its inception, MMRMA has been a leader in implementing aggressive risk prevention programs. It provides extensive training to its members in various areas of municipal operations. It makes use of several advisory committees comprised of member employees holding job responsibilities related to the activities of the committees. The advisory committees meet throughout the year to produce model policies and procedures and facilitate training in the areas of building and court security, law enforcement, parks and recreation, fire/EMS, telecommunications, employment, and public works.

Condensed Comparative Financial Highlights

- Overall, MMRMA's net assets decreased by \$8.3 million (4.5 percent) from \$186.4 million to \$178.1 million.
- Total revenue increased by \$1 million (2 percent) from \$41 million to \$42 million. This was primarily due to a decrease in contributions ceded to reinsurers.
- Risk management, underwriting, and other administrative expenses decreased by approximately \$300,000 (2 percent) from \$13.5 million to \$13.2 million primarily due to decreased expenses in the Energy Choice Program.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

- Net contributions used to fund risk carried by MMRMA increased by approximately \$1.2 million (4.5 percent) from \$27.5 million to \$28.7 million.
- Claim payments decreased by \$1.5 million (9 percent) from \$15.8 million to \$14.3 million. The amount of paid claims varies from year to year and is driven by many factors outside MMRMA's control. Although the current year's paid amount is lower than the previous year, this does not appear to represent a positive trend, but merely variation around the mean.
- Ceded reinsurance costs decreased by approximately \$1 million (6 percent) from \$15.9 million to \$14.9 million.
- Reserves (reported net of estimated reinsurance recoveries), which include reported, incurred but not reported, and unallocated loss adjustment expense, decreased by approximately \$4.4 million (5 percent) from \$89.1 million to \$84.7 million. The reason for the decrease is that claims experience from accident years 2007 and prior was better than expected for the casualty program. Actuarial estimates of ultimate losses have decreased as a result, particularly for the police professional and public officials liability coverages.
- Investment losses of \$11.6 million were encountered this year compared to \$35.9 million in income in the prior year due to overall downturn in the market conditions during FY 2008.

Investments

Investments in cash and cash equivalents, fixed income, and equity securities comprise the most significant numbers in the asset section of MMRMA's statement of net assets. Accordingly, the board of directors has established an investment policy with an overall objective of moderate growth of assets consistent with lower fluctuations of market values and protection against erosion of purchasing power caused by inflation. Each investment transaction seeks to ensure that capital losses are minimized, whether caused by security defaults or decline in market value. The goal of MMRMA is to attain, on the total portfolio, an above-market average rate of return throughout economic cycles, taking into account MMRMA's investment risk constraints.

The board of directors has overall fiduciary responsibility for the investment of MMRMA assets. The executive director is responsible for the implementation and administration of the investment policies, including the coordination of investment activities and strategic initiatives. MMRMA retains an independent investment consultant to assist the executive director in the implementation of the investment policy. The finance committee receives regular reports from the investment consultant and provides input to the executive director and to the board in matters related to the investment policy and performance results. The responsibility for determining specific investment transactions, within the guidelines of the investment policy, rests with the investment managers retained by MMRMA. MMRMA retains both active and passive managers.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

The investment policy includes an allocation range for each asset class in order to vary exposure within and among the different asset classes. The asset allocation policy is reviewed on a periodic basis with a focus on changes in financial needs, investment objectives, risk tolerance, and asset class performance.

Each asset class is measured against a performance standard specific to that asset class. Total fund performance is measured against a policy index which is a hypothetical fund with 50 percent invested in the Russell 3000 Large Cap Equity Index, 40 percent in the Lehman Brothers Intermediate Government/Credit Bond Index, and 10 percent in the 91-day Treasury Bill Index. In FY 2008, total fund performance exceeded the policy index.

Currently, all investments of MMRMA are professionally managed in both passive index and actively managed funds and held in trust by Comerica Bank. A \$5 million bond is held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by the State.

Reserves for Unpaid Claims

MMRMA's most significant numbers in the liability section of the statement of net assets are the reserves for reported, incurred but not reported claims, and claim adjustment expenses. Tillinghast, a Towers Perrin Company, conducts an independent actuarial analysis to determine the adequacy and reasonableness of such reserves.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

Budgetary Highlights

The budget for the year ended June 30, 2008 was approved by the board of directors during its June 2007 meeting.

	Budgeted	Actual	Variance Positive (Negative)
Revenues:			
Members	\$ 52,675,000	\$ 51,812,662	\$ (862,338)
Affiliate	1,721,220	1,806,707	85,487
Investment income	12,000,000	(11,619,381)	(23,619,381)
Total revenues	66,396,220	41,999,988	(24,396,232)
Expenditures:			
Membership services	17,438,000	15,257,588	2,180,412
Administration	2,956,337	2,192,924	763,413
Claims services	1,881,965	1,499,358	382,607
Risk management	5,490,393	5,402,340	88,053
Information	763,368	538,937	224,431
Total expenditures	28,530,063	24,891,147	3,638,916
Claims paid	18,900,000	14,273,239	4,626,761
Excess revenue	<u>\$ 18,966,157</u>	2,835,602	<u>\$ (16,130,555)</u>
Decrease in reserves**		<u>4,458,066</u>	
Excess of revenues over expenses before distributions to members		7,293,668	
Less distributions to members		<u>(15,628,856)</u>	
Net decrease in net assets		<u>\$ (8,335,188)</u>	

** Not a budgeted item

Total resources actually received by MMRMA were less than the budgeted amounts by \$24.4 million, or 37 percent. Member and affiliate contributions were \$777,000 under budget; however, MMRMA experienced a \$11.6 million investment loss rather than the \$12 million gain that was budgeted, resulting in the overall decrease.

Membership services expenditures were under the budgeted amount by \$2.2 million, or 12.5 percent. This was due primarily to the fact that reinsurance costs were not finalized until after the budget was approved.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

Administrative services expenses were under budget by \$763,000, or 26 percent, due primarily to lower investment and legal counsel fees, as well as a decrease in personnel costs due to unfilled positions.

Claims services expenses were under budget by \$383,000, or 20 percent, due primarily to a decrease in personnel costs due to unfilled positions, as well as a decrease in the use of contractors and other adjusting expenses.

Risk management expenses were under budget by approximately \$88,000, or 1.6 percent, due primarily to lower risk management fees.

Information services expenses were under budget by \$224,000, or 29 percent. This was due to the fact that new software development was not complete in fiscal year 2008. As a result, the remainder of the budgeted expense for software development and maintenance has been transferred to the fiscal year 2009 budget.

Claims and legal expenses paid during the year were \$14.3 million, which is 24.5 percent under budget. The actual payment of claims depends on many factors and varies from year to year.

In total, MMRMA had budgeted net revenue over expense amount of \$19 million. The combination of a decrease in the actuarially determined incurred but not reported (IBNR) reserves, lower than expected investment income, and a decrease in claims paid resulted in a \$7.3 million increase in net assets, before distributions to members, for the fiscal year ended June 30, 2008.

Capital Assets

MMRMA owns its office building located in Livonia, Michigan. It was built at a cost of \$1.8 million and is being depreciated on a straight-line basis over 15 years. MMRMA's policy on payments for computer hardware, software, and building improvements with a cost greater than \$5,000 is to capitalize such payments and to depreciate or amortize them over five years. In 2008, MMRMA capitalized \$215,000 in computer hardware and software costs. MMRMA follows the State of Michigan requirement that furniture and equipment be expensed when purchased.

Economic Factors and Next Year's Budget

The reinsurance industry continues to respond to catastrophic losses as well as to continuing uncertain investment market conditions. In this uncertain climate, MMRMA plans to hold sufficient net assets to act as a contingency for uncollectible reinsurance. Net assets will also provide protection from reserve deficiencies, investment volatility, and new, unexpected, or catastrophic claims.

Michigan Municipal Risk Management Authority

Management's Discussion and Analysis (Continued)

Contacting MMRMA's Management

This financial report is designed to provide a general overview of MMRMA's finances and to demonstrate MMRMA's accountability for the revenue it receives. If you have questions about this report or need additional information, contact MMRMA's office.

14001 Merriman Road
Livonia, Michigan 48154
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www.mmrma.org

Michigan Municipal Risk Management Authority

Statement of Net Assets

	June 30	
	2008	2007
Assets		
Current assets:		
Cash and cash equivalents (Note 5)	\$ 42,154,801	\$ 55,323,616
Member contributions receivable	3,757,514	5,433,849
Reinsurance recoverable	2,157,504	3,545,322
Fixed maturities at fair value (Note 5)	119,419,592	118,479,605
Equity securities at fair value (Note 5)	141,356,755	152,061,379
Pending trades (Note 5)	1,734,045	-
Prepaid expenses and other current assets	6,507,140	6,621,737
Total current assets	317,087,351	341,465,508
Noncurrent assets:		
Restricted investment (Notes 1 and 5)	5,000,000	5,000,000
Investments	1,280,950	1,130,609
Capital assets - Net of accumulated depreciation (Note 6)	509,855	397,761
Total noncurrent assets	6,790,805	6,528,370
Total assets	323,878,156	347,993,878
Liabilities		
Current liabilities:		
Reserve for claims and claim adjustment expenses reported (Note 3)	5,992,093	9,348,960
Reserve for claims and claim adjustment expenses incurred but not reported (Note 3)	14,284,932	29,180,840
Accrued expenses	1,793,187	1,513,871
Distributions payable	15,767,086	7,573,675
Pending trades (Note 5)	-	26,888,119
Unearned contributions	14,191,599	12,541,631
Member funds held on deposit (Note 2)	29,372,809	23,929,853
Total current liabilities	81,401,706	110,976,949
Noncurrent liabilities:		
Reserve for claims and claim adjustment expenses reported - Net of current portion (Note 3)	19,027,085	13,966,052
Reserve for claims and claim adjustment expenses incurred but not reported - Net of current portion (Note 3)	45,359,877	36,626,201
Total noncurrent liabilities	64,386,962	50,592,253
Total liabilities	145,788,668	161,569,202
Net Assets		
Invested in capital assets	509,855	397,761
Net unrestricted assets	177,579,633	186,026,915
Total net assets	<u>\$ 178,089,488</u>	<u>\$ 186,424,676</u>

Michigan Municipal Risk Management Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Years Ended June 30	
	2008	2007
Operating Revenue		
Member contributions - Gross of reinsurance	\$ 51,748,311	\$ 51,743,610
Member contributions - Ceded	(14,850,600)	(15,937,806)
Net member contributions	36,897,711	35,805,804
Energy Choice Program revenue	3,266,116	3,639,056
Loss contributions from associated programs	1,806,707	1,600,684
Total revenue	41,970,534	41,045,544
Operating Expenses - Risk management, underwriting, and other expenses		
Risk management expenses	3,271,631	3,218,663
Executive office, underwriting, claims, and other expenses	6,768,916	6,762,171
Energy Choice Program expenses	3,201,765	3,562,275
Total risk management, underwriting, and other expenses	13,242,312	13,543,109
Net Contributions Available for Claims and Related Expenses	28,728,222	27,502,435
Claims and Related Expenses		
Claims and claim adjustment expenses paid - Gross of subrogation and reinsurance recoveries	19,468,736	21,622,718
Reinsurance recoveries on claims and claims adjustment expenses	(5,195,497)	(5,838,427)
Change in net reserve for claims and claim adjustment expenses	2,398,702	(5,395,678)
Change in net reserve for claims and claim adjustment expenses incurred but not reported	(6,856,768)	(1,673,233)
Total claims and related expenses	9,815,173	8,715,380
Operating Income	18,913,049	18,787,055
Nonoperating Income (Expense)		
Net (decrease) increase in fair value of investments	(26,477,681)	4,627,158
Investment income	15,858,566	32,604,076
Interest expense on member funds held on deposit	(1,000,266)	(1,356,449)
Net nonoperating (expense) income	(11,619,381)	35,874,785
Distribution to Members	(15,628,856)	(7,573,675)
(Decrease) Increase in Net Assets	(8,335,188)	47,088,165
Net Assets - Beginning of year	186,424,676	139,336,511
Net Assets - End of year	\$ 178,089,488	\$ 186,424,676

Michigan Municipal Risk Management Authority

Statement of Cash Flows

	Years Ended June 30	
	2008	2007
Cash Flows from Operating Activities		
Cash received from members	\$ 50,390,262	\$ 47,934,692
Member fund deposits received	19,233,538	18,943,861
Cash payments for reinsurance claims and member contributions	(12,587,352)	(18,973,842)
Energy Choice Program revenue received	3,507,778	3,856,737
Energy Choice Program expenses paid	(3,433,715)	(3,154,060)
Loss contributions from associated programs	1,806,707	1,600,684
Risk management and accounting expenses paid	(3,278,883)	(3,250,196)
Executive office, underwriting, claims, and other expenses paid	(6,874,822)	(8,251,419)
Interest paid on member funds held on deposit	(1,000,266)	(1,356,449)
Member fund claims and related payments	(13,790,582)	(13,560,438)
Claims and claims adjustment expenses paid	(14,273,239)	(15,784,291)
Net cash provided by operating activities	19,699,426	8,005,279
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	190,904,745	414,546,975
Purchases of investments	(246,824,697)	(416,993,191)
Distributions payable	8,193,411	3,876,679
Investment income received	14,858,300	31,247,627
Net cash (used in) provided by investing activities	(32,868,241)	32,678,090
Net (Decrease) Increase in Cash and Cash Equivalents	(13,168,815)	40,683,369
Cash and Cash Equivalents - Beginning of year	55,323,616	14,640,247
Cash and Cash Equivalents - End of year	\$ 42,154,801	\$ 55,323,616

Michigan Municipal Risk Management Authority

Statement of Cash Flows (Continued)

	Years Ended June 30	
	2008	2007
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 18,913,049	\$ 18,787,055
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	136,409	124,666
Changes in assets and liabilities:		
Member contributions receivable	1,676,335	496,977
Reinsurance recoverable	1,387,818	(1,799,885)
Prepaid expenses and other	114,597	(1,537,683)
Reserves for claims and claim adjustments expenses	(4,458,066)	(7,068,911)
Reinsurance premiums and casualty treaty adjustments payable	-	(204,671)
Accrued expenses	279,316	(731,029)
Unearned contributions	1,649,968	(61,240)
Net cash provided by operating activities	<u>\$ 19,699,426</u>	<u>\$ 8,005,279</u>

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note I - Nature of Entity and Significant Accounting Policies

Michigan Municipal Risk Management Authority (MMRMA) was established in January 1980 pursuant to the laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege, or authority which each might exercise separately. The purpose of MMRMA is to provide cooperative and comprehensive risk financing and risk control services for general and auto liability, motor vehicle physical damage, and property; purchase or otherwise provide for reinsurance or excess insurance or make other provisions for payment of losses and related expenses in excess of risk retained by MMRMA; and provide claims, legal defense, and related general administrative services to members. During 2001, MMRMA established the Energy Choice Program, under which eligible Michigan local communities can purchase electric and gas energy wholesale for their own use. On behalf of the communities, MMRMA negotiates and enters into contracts to purchase electric and gas energy for municipal purposes.

Any member may withdraw from MMRMA at the end of any anniversary year by giving at least 90 days' notice in writing of its desire to withdraw. Any member withdrawing from MMRMA while having a positive balance in its funds held on deposit may withdraw such funds less projected allocated claims expenses. Any member withdrawing from MMRMA having a negative balance in its funds held on deposit account shall repay MMRMA such negative balance and claims expenses incurred. At the request of the withdrawing member, MMRMA shall continue to service any pending claim and the member shall reimburse MMRMA for claims expenses incurred. Coverage in excess of the members' retention shall not be afforded withdrawing members for claims not serviced by MMRMA.

MMRMA prepares a detailed budgetary schedule of administrative expenses prior to the beginning of each fiscal year. The fundamental purpose of budgetary control is to plan for the expected level of operations and to provide management with a tool to control deviation from such plan.

The accounting policies of MMRMA conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental insurance pools. In September 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. MMRMA has elected to adopt statements or interpretations of the Financial Accounting Standards Board (FASB) that are issued after November 30, 1989 unless GASB specifically adopts pronouncements that conflict with or contradict such FASB statements or interpretations.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

MMRMA distinguishes operating revenue and expenses from nonoperating revenue and expenses. Operating revenue and expenses generally result from providing services in connection with MMRMA's principal ongoing operations. The principal operating revenue and expenses of MMRMA relate to premium revenue and claims and administrative expenses. Premium contributions received covering future contract periods are deferred and recognized over the related contract periods. Net investment earnings are reported as nonoperating revenue.

Cash and Cash Equivalents - Cash and cash equivalents include cash and all liquid securities with maturities of 90 days or less when purchased.

Member Contributions Receivable and Reinsurance Receivable - Receivables from members are stated at net invoice amount and receivables from reinsurers are computed based on the applicable treaty. Collectibility of balances is reviewed periodically. Any amounts deemed uncollectible are written off at that time. No allowance for bad debts has been recorded because management considers all member and reinsurance receivables to be collectible.

Investments - Investments consist of U.S. government securities with maturities of greater than three months, agency-backed securities, collateralized mortgage obligations (CMO), and public, corporate, and foreign bonds. All investments are stated at fair value as determined by quoted market prices. For agency-backed securities and collateralized mortgage obligations, certain prepayment assumptions are used in determining the fair value. Investments in proprietary funds offered by Comerica Bank are valued at the quoted market value provided by Comerica Bank. All investment income, including changes in the fair value of investments, is recognized as revenue in the statement of revenue, expenses, and changes in net assets. MMRMA's foreign bonds and notes include approximately \$5,500,000 of bonds issued in U.S. currency on behalf of foreign-owned companies, which are not subject to foreign currency risk.

Restricted Investment - MMRMA has a \$5 million bond held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by statute.

Capital Assets - Capital assets are recorded at cost. Depreciation is computed primarily using the straight-line method over the useful lives of the assets.

Unearned Contributions - Unearned contributions represent contributions invoiced during the year which cover a period extending beyond the end of the fiscal year and, thus, remain unearned as of year end.

Distributions Payable - MMRMA recognizes a liability for member distributions when the distributions have been approved by MMRMA's board of directors.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

Reserves for Claims and Claim Adjustment Expenses - MMRMA establishes claims liabilities based on estimates of the ultimate cost of claims, including future allocated and unallocated claims adjustment expenses, that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation and reinsurance recoveries are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in estimating claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability. Claims liabilities are estimated periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made. MMRMA retains a qualified, independent actuarial firm to perform an annual actuarial review of the risk retained by MMRMA. Premium deficiency is defined as the amount by which expected claims costs (including IBNR) and all expected claims adjustment expenses exceed related unearned premiums. MMRMA has determined that a premium deficiency does not exist. In making this determination, management has taken into consideration anticipated investment income.

Member Contributions - Member contributions related to amounts to be expended for reinsurance coverage, claim payments in excess of individual members' self-insured retentions, and certain general and administrative expenses are recognized as revenue in the year to which they apply. Member loss contributions are determined in accordance with the terms of the joint exercise of powers agreement (JPA) and underwriting guidelines established by MMRMA. The JPA is the primary governing document for MMRMA.

Member contributions related to claims costs that fall within the members' self-insured retention are reflected as member funds held on deposit. Member contributions for this are determined in accordance with the terms of the JPA. The executive director of MMRMA may authorize distributions to individual members in the event that their funds held on deposit are determined to be sufficient to do so.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

Risk Management - MMRMA is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. MMRMA has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates related to allowances for unsettled claims and claims incurred but not reported are described in Note 3.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 2 - Member Funds Held on Deposit

This account consists of those economic resources of the members held by MMRMA used for obligations of the members including loss payments and defense costs up to the members' self-insured retention amounts. Member funds on deposit earn interest based on their share of the fixed income portfolio return. In addition, economic resources in this account are used to pay certain other legal and meeting expenses of the members. It has been included in the accompanying financial statements as a liability for the amount received but not yet earned or expended on claims costs.

The following is a summary of the change in member funds held on deposit during the years ended June 30:

	2008	2007
Member contributions	\$ 18,233,272	\$ 17,587,412
Claims and related costs:		
Member claims and claims adjustment costs paid - Net of subrogation receipts	13,373,999	12,901,517
General legal fees	186,293	186,261
State assessments and direct meeting costs	113,465	127,324
Funds distributed to members	116,824	345,336
Total claims and related costs	13,790,582	13,560,438
Excess of member contributions before interest over claims and related costs	4,442,690	4,026,974
Interest on member funds	1,000,266	1,356,449
Excess of member contributions and interest over claims and related costs	5,442,956	5,383,423
Member funds held on deposit - Beginning of year	23,929,853	18,546,430
Member funds held on deposit - End of year	\$ 29,372,809	\$ 23,929,853

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 3 - Allowances for Unsettled Claims and Claims Incurred but Not Reported

The following table represents changes in the unpaid claims, net of the effect of reinsurance, for MMRMA for the years ended June 30:

	2008	2007	2006
Unpaid claims and claims adjustment expenses - Beginning of fiscal year	\$ 89,122,053	\$ 96,190,964	\$ 84,124,632
Incurred claims and claims adjustment expenses:			
Provision for insured events of the current fiscal year	33,214,864	27,664,794	31,662,762
Change in provision for insured events of prior fiscal years	<u>(23,399,691)</u>	<u>(18,949,414)</u>	<u>(7,855,790)</u>
Total incurred claims and claims adjustment expenses	9,815,173	8,715,380	23,806,972
Payments:			
Claims and claims adjustment expenses			
attributable to insured events of the current fiscal year	(3,324,918)	(2,699,438)	(1,900,861)
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	<u>(10,948,321)</u>	<u>(13,084,853)</u>	<u>(9,839,779)</u>
Total payments	<u>(14,273,239)</u>	<u>(15,784,291)</u>	<u>(11,740,640)</u>
Unpaid claims and claims adjustment expenses - End of fiscal year	<u>\$ 84,663,987</u>	<u>\$ 89,122,053</u>	<u>\$ 96,190,964</u>

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 3 - Allowances for Unsettled Claims and Claims Incurred but Not Reported (Continued)

The provision for incurred claims and claims adjustment expenses has been reduced by approximately \$11,852,000 and \$16,854,000, which represents amounts expected to be paid by reinsurers for 2008 and 2007, respectively. The provision for insured events of prior fiscal years decreased during 2008 and 2007 due to claims settling for amounts different from those originally estimated. The decrease was attributable to favorable claim settlements achieved through facilitation where several high profile claims were settled below the initial reserve estimates. Included in the provision for insured events of prior fiscal years are expenses related to events that occurred in previous years, but which do not require refunds of premiums to members.

Note 4 - Loss Coverage

Loss coverage for general and auto liability and property is structured on a three-layer basis with each member retaining a portion of its losses. The layers are divided into three levels of risk retention whereby the members, MMRMA, and the reinsurance carriers share the risk. Loss coverage for auto physical damage is shared between the members and MMRMA.

Member Retention Level - A member's self-insured retention varies depending on the type of claim and the agreement entered into with MMRMA. The table below displays the amount of risk retained by the members for general and auto liability, property, and auto physical damage.

Authority Retained Risk Program - This program consists of those economic resources of MMRMA which have been restricted to pay losses incurred by members which exceed the members' self-insurance retention layer (SIR) and are not covered under existing reinsurance agreements. During 2008 and 2007, MMRMA agreed to retain certain levels of risk, rather than obtaining coverage through reinsurance agreements. The table below presents a summary of the amount of risk retained by MMRMA for general and auto liability, property, and auto physical damage.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 4 - Loss Coverage (Continued)

Reinsurance Agreements - MMRMA has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by MMRMA or the members. The table below displays the amount of risk retained by the reinsurer for general and auto liability, property, and auto physical damage.

Policy	Member SIR	Authority Coverage	Reinsurance
General and auto liability	\$50,000 to \$75,000 (1) per occurrence	Individual claims between members' SIR and \$1,000,000 and 100 percent of the next \$4,000,000 (2)	Individual claims in excess of MMRMA's coverage up to \$15 million per occurrence (3) Individual claims resulting from terrorism in excess of MMRMA's coverage up to \$4 million over the life of the treaty
Property	\$1,000 deductible plus 10 percent up to \$100,000 per occurrence (6)	90 percent of the first \$100,000 after the deductible, plus 100 percent of the next \$400,000 per occurrence	Individual claims in excess of MMRMA's coverage up to the predetermined maximum limits for each member (4) Individual claims resulting from terrorism in excess of MMRMA's coverage up to \$25 million over the life of the treaty
Auto physical damage	\$15,000 per unit and \$30,000 (5) per occurrence	Individual claims up to \$1,500,000 after members' SIR	No reinsurance coverage

- (1) Certain members have higher retention levels and/or deductibles
- (2) MMRMA retains 100 percent of this layer until a \$4 million aggregate is reached; any additional losses become the liability of the reinsurers
- (3) Certain members have higher limits of liability per occurrence
- (4) Limit based on value of property being insured
- (5) After a \$1,000 deductible
- (6) Some members have higher deductibles

In the event a reinsurance company does not meet its obligation to MMRMA, responsibility for payment of any unreimbursed claims will be paid by MMRMA using funds contributed by members for this purpose.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 4 - Loss Coverage (Continued)

MMRMA has also retained some risk for an intergovernmental agency that is an affiliated entity but not a member of the organization. As such, a portion of the activity recorded relates to this organization. Contributions paid by this organization for the coverage levels are shown as loss contributions from associated programs. MMRMA is responsible for payment of unreimbursed claims due to insolvent reinsurers for this organization.

Member Stop-loss Program - In addition to the member coverage described above, MMRMA provides optional stop-loss coverage to members to limit the aggregate losses paid by one member in any one year. MMRMA has entered into an agreement with participating members whereby total paid losses in any one fiscal year, net of reinsurance recoveries, which are in excess of a predetermined entry point will be paid by the stop-loss program. Allocations to the stop-loss program are based on a percent of contributions.

The following table summarizes the net impact of reinsurance arrangements on member contributions and claims and claims adjustment expenses paid:

	2008	2007
Member contributions:		
Direct	\$ 51,748,311	\$ 51,743,610
Ceded	<u>(14,850,600)</u>	<u>(15,937,806)</u>
Net member contributions	<u>\$ 36,897,711</u>	<u>\$ 35,805,804</u>
Claims and claim adjustment expenses paid	\$ 19,468,736	\$ 21,622,718
Reinsurance recoveries	<u>(5,195,497)</u>	<u>(5,838,427)</u>
Net claims and claim adjustment expenses paid	<u>\$ 14,273,239</u>	<u>\$ 15,784,291</u>

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 5 - Investments

MMRMA's investment policy authorizes MMRMA to make deposits in custodial banks that are appointed upon the recommendation of the executive director.

MMRMA's investments are held in MMRMA's name. MMRMA has designated Comerica Bank for the deposit of its investments.

The overall asset mix of the fund, measured by market value, shall be as follows:

	<u>Maximum</u>	<u>Minimum</u>	<u>Target</u>
Equities	60%	25%	50%
Fixed income	75%	35%	40%
Cash equivalents	20%	5%	10%

MMRMA's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, MMRMA's deposits may not be returned to it. MMRMA does not have a deposit policy for custodial credit risk of bank deposits. At year end, MMRMA's deposit balance of \$1,133,048 had \$1,033,148 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. In addition, MMRMA has \$39,357,694 of cash equivalents that were uninsured and uncollateralized. MMRMA believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, MMRMA, with the assistance of the independent investment consultant, periodically evaluates the performance of the custodial bank and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. MMRMA's investment policy does not restrict investment maturities. MMRMA's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with MMRMA's cash requirements.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 5 - Investments (Continued)

At June 30, 2008, MMRMA held the following investments:

Investment Type (Comerica Defined)	Market Value (Including Accruals)	Weighted Average Maturity Date	Years
U.S. government	\$ 40,428,748	6/28/2012	4
U.S. government agencies	6,371,676	1/15/2012	4
Inflation index bonds	1,352,634	7/15/2017	9
Mortgage-backed securities	5,383,714	3/18/2024	16
Collateralized mortgage obligations	10,572,581	9/13/2032	24
Asset-backed securities	2,125,460	1/22/2020	12
Municipal bonds	270,568	8/16/2014	6
Corporate bonds	42,924,321	6/8/2019	11
Convertible corporate bonds	141,750	3/27/2015	7
Foreign bonds and notes	9,241,288	2/2/2015	7
Private placements	5,606,852	4/19/2020	12
Equities	141,356,755	N/A	N/A
Pending trades	1,734,045	N/A	N/A
Total fair value	<u>\$ 267,510,392</u>		

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 5 - Investments (Continued)

At June 30, 2007, MMRMA had the following investments:

Investment Type (Comerica Defined)	Market Value (Including Accruals)	Weighted Average Maturity Date	Years
U.S. government	\$ 27,607,793	12/5/2010	3
U.S. government agencies	19,634,471	1/25/2011	4
Mortgage-backed securities	16,355,296	2/26/2028	21
Collateralized mortgage obligations	9,736,167	4/30/2033	26
Asset-backed securities	5,023,488	5/26/2019	12
Municipal bonds	271,414	8/30/2014	7
Corporate bonds	30,553,953	2/11/2018	11
Convertible corporate bonds	357,450	3/13/2023	16
Foreign bonds and notes	7,585,063	1/11/2013	6
Private placements	6,354,510	4/14/2021	14
Equities	152,061,379	N/A	N/A
Pending trades	(26,888,119)	N/A	N/A
Total fair value	<u>\$ 248,652,865</u>		

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 5 - Investments (Continued)

Credit Risk - MMRMA has an investment policy that prohibits the following investments: warrants, options, futures, collectibles, leveraged securities, investment strategies, external mutual funds, hedge funds, derivatives, equity investments in LLCs, unit investment trusts, margin purchases, short sales, securities of corporation service providers, and loaning or pledging securities.

The portfolio's debt securities must have a minimum quality rating of B by Standard & Poor's, while the overall portfolio should have an average minimum quality rating of A or its equivalent as determined in good faith by MMRMA.

At June 30, 2008, the credit quality ratings of debt securities, without regard to investment type, are as follows:

<u>Rating</u>	<u>Amount - Fair Value</u>
AAA	\$ 67,422,274
AA	7,134,767
A	22,491,140
BBB	21,564,131
BB	1,885,982
B	2,333,504
NR	5,031,418
Total	<u>\$ 127,863,216</u>

At June 30, 2007, the credit quality ratings of debt securities, without regard to investment type, are as follows:

<u>Rating</u>	<u>Amount - Fair Value</u>
AAA	\$ 70,101,651
AA	5,258,385
A	15,604,548
BBB	15,007,420
BB	3,698,540
B	3,180,623
NR	9,011,764
Total	<u>\$ 121,862,931</u>

The rating organization used by MMRMA to rate its investments is Standard & Poor's.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 5 - Investments (Continued)

Concentration of Credit Risk - Equity portfolios must consist of well diversified, publicly held stocks, listed on U.S. stock exchanges. MMRMA may not invest in more than 5 percent of the outstanding securities of one issuer nor invest more than 5 percent of the portfolio's assets in the outstanding securities of one issuer. There were no investments that individually exceed 5 percent of MMRMA's total investments at June 30, 2008 and 2007.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in a currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. MMRMA's investments in foreign bonds and notes at June 30, 2008 and 2007 that are subject to foreign currency risk total approximately \$3,700,000 and \$7,600,000, respectively.

Declines in Investment Values - Subsequent to year end, the Authority's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 6 - Capital Assets

Capital asset activity for MMRMA at June 30, 2008 is as follows.

	Balance July 1, 2007	Additions	Balance June 30, 2008
Capital assets being depreciated:			
Building	\$ 1,774,609	\$ 33,705	\$ 1,808,314
Computer hardware	62,170	-	62,170
Computer software	184,207	214,798	399,005
Subtotal	2,020,986	248,503	2,269,489
Accumulated depreciation:			
Building	1,616,866	120,554	1,737,420
Computer hardware	5,181	12,434	17,615
Computer software	1,178	3,421	4,599
Subtotal	1,623,225	136,409	1,759,634
Net capital assets being depreciated	<u>\$ 397,761</u>	<u>\$ 112,094</u>	<u>\$ 509,855</u>

There were no disposals in 2008 and 2007. The depreciation expense included in the statement of revenue, expenses, and changes in net assets at June 30, 2008 and 2007 was \$136,409 and \$124,666, respectively.

Note 7 - Employee Benefits

Defined Contribution Plans - MMRMA funds a 401(a) defined contribution plan (the "Plan") which provides retirement benefits to its employees. Amounts contributed to the Plan by MMRMA are based on 15 percent of the executive director's W-2 income and 12 percent of all other employees' W-2 income. An employee must be employed one year before becoming eligible. Contributions were approximately \$235,000 and \$240,000 in fiscal years 2008 and 2007, respectively.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 7 - Employee Benefits (Continued)

Additionally, MMRMA has a healthcare savings plan (the HCSP) with Municipal Employees' Retirement System of Michigan (MERS). This defined contribution health plan was established to fund employee health benefits after termination of employment. All employees that are eligible for the Plan are also eligible for the HCSP. The HCSP is funded entirely by MMRMA contributions and is based on a formula which results in the same amount being contributed for each eligible employee. The investment balances can be used by the terminating employee for eligible benefits under the program. After remitting MMRMA's contribution for the employees, MMRMA is not liable for any additional costs related to terminating employees. Upon commencement of the HCSP plan, MMRMA funded an amount to recognize prior service costs. During 2008 and 2007, MMRMA contributed approximately \$51,000 and \$53,000, respectively.

MMRMA also allows eligible employees the option of deferring compensation to future periods. The eligible employee can elect to have a portion of his or her salary remitted to the International City Managers Association for future withdrawal as compensation. MMRMA does not maintain the deferred compensation funds and does not defer this compensation cost. As such, included in the statement of revenue, expenses, and changes in net assets are compensation expenses earned by employees during the year, regardless of whether the employees receive funds for compensation or elect to defer a portion of their compensation through this program.

Defined Benefit Plan - MMRMA has a retiree health benefit program, which provides limited retiree health and Medicare supplemental coverage for all full-time employees who terminate after January 1, 2005 with a minimum age of 57 years and minimum service of 10 years. MMRMA is responsible for a portion of benefit costs based on age and years of service, subject to a maximum payment of costs of \$1,000 per month per retiree, increased by 2.5 percent each year after 2006, with any excess funded by retiree contributions. There were 16 participants in the program, of which one was eligible to receive benefits at June 30, 2008.

MMRMA has established a segregated trust under the supervision of MERS to accumulate funds for payment of future benefits. For the years ended June 30, 2008 and 2007, MMRMA contributed \$68,500 and \$68,630, respectively, to the plan. Upon adoption, MMRMA elected to accrue the full actuarially computed liability. MMRMA fully funded the liability in October 2006. The annual required contributions (ARC), as computed by the actuary, will be reported as expense and fully funded on an annual basis over eligible employees' future service periods.

Michigan Municipal Risk Management Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 7 - Employee Benefits (Continued)

Funded Status and Funding Progress - As of July 1, 2005, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,001,612, and the value of the assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,001,612. In 2006, MMRMA accrued an additional \$67,820, an estimate of the expense for the year ended June 30, 2006, which increased UAAL to \$1,069,432. MMRMA contributed \$1,069,432 to the plan in 2007. In addition, MMRMA accrued an additional \$68,625 in 2007 and \$68,500 in 2008, which represents an estimate of the expense for the years ended June 30, 2007 and 2008, respectively. The actuarial valuation will be performed every three years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost include (a) rate of return on the investments of present and future assets of 8.0 percent, compounded annually, (b) projected annual salary increases of 4.5 percent, plus a percentage based on age, related to a scale that reflects merit, longevity, and promotional salary increases, and (c) amortization method level dollar over a 30-year period. The funded status of the plan as of July 1, 2005, the most recent actuarial valuation date, is as follows:

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
7/1/2005	\$ -	\$ 1,001,612	\$ (1,001,612)	0.00%

For measurement purposes, a 4.5 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed as of the valuation date. The rate is assumed to remain at this level.

Note 8 - Litigation Matters

MMRMA is involved in various litigation and legal matters, which are being defended and handled in the ordinary course of business. The costs of any claims ultimately paid to cover MMRMA's portion of a legal obligation with respect to these matters constitute expenses to MMRMA. In the opinion of MMRMA's management and legal counsel, the ultimate resolution of these various litigation issues will not have a material effect on MMRMA and its members.

Required Supplemental Information

Michigan Municipal Risk Management Authority

Required Supplementary Information Schedule of Claims Information for All Lines of Coverage

The table on the following page illustrates how MMRMA's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by MMRMA as of the end of each of the last 10 years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs of MMRMA, including overhead and claims expenses not allocable to individual claims.
- (3) This line shows MMRMA's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued), as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of 10 rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- (6) This section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.
- (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Michigan Municipal Risk Management Authority

Schedule of Claims Information for All Lines of Coverage (Continued)

Required Supplementary Information

Fiscal Year Ended June 30	1999	2000	2001	2002	2003*	2004*	2005	2006	2007	2008
(1) Required contributions and investment revenue:										
Earned	\$ 45,905,155	\$ 53,398,313	\$ 39,151,457	\$ 13,694,683	\$ 43,545,899	\$ 57,799,986	\$ 63,651,858	\$ 62,914,622	\$ 84,455,062	\$ 68,440,700
Ceded	6,311,948	7,623,509	7,673,013	12,751,916	13,247,813	14,069,985	13,592,635	16,218,149	15,937,806	14,850,600
Net earned	39,593,207	45,774,804	31,478,444	942,767	30,298,086	43,730,001	50,059,223	46,696,473	68,517,256	53,590,100
(2) Unallocated expenses*	6,700,960	7,258,409	7,742,554	7,875,954	12,671,134	11,048,572	10,070,451	17,663,152	15,645,498	15,010,677
Policy Year Ended June 30 (in thousands)										
(3) Estimated incurred claims and expenses, end of policy year:										
Incurred	27,828	23,060	45,115	28,080	34,113	30,169	37,548	37,146	33,069	37,918
Ceded	143	102	19,978	1,127	7,047	2,627	5,833	5,483	5,404	4,703
Net incurred	27,685	22,958	25,137	26,953	27,066	27,542	31,715	31,663	27,665	33,215
(4) Net paid (cumulative) as of:										
End of policy year	2,833	1,297	3,593	1,721	2,836	1,352	1,641	1,901	2,699	3,325
One year later	4,514	3,285	5,965	4,342	5,040	5,393	4,625	4,237	5,308	-
Two years later	7,185	7,452	8,595	6,188	8,280	7,397	7,065	6,089	-	-
Three years later	8,784	12,117	10,875	7,309	10,064	11,131	9,030	-	-	-
Four years later	10,461	14,339	11,040	7,796	12,876	12,326	-	-	-	-
Five years later	11,516	15,706	11,574	8,695	13,308	-	-	-	-	-
Six years later	11,597	16,084	11,936	8,950	-	-	-	-	-	-
Seven years later	11,612	16,487	12,242	8,950	-	-	-	-	-	-
Eight years later	11,629	16,595	-	-	-	-	-	-	-	-
Nine years later	11,645	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded claims and expenses	-	16	48	1	186	237	592	2,111	3,443	-
(6) Re-estimated incurred claims and expenses:										
End of policy year	27,685	22,958	25,137	26,953	27,066	27,542	31,715	31,663	27,665	33,215
One year later	23,777	20,213	28,572	23,691	25,489	26,407	28,786	27,663	28,369	-
Two years later	16,639	21,333	23,867	18,160	21,056	21,877	24,662	19,337	-	-
Three years later	15,694	19,048	17,678	13,062	20,406	19,068	16,096	-	-	-
Four years later	12,619	19,260	14,248	13,092	16,470	14,934	-	-	-	-
Five years later	12,897	18,599	14,468	10,475	15,014	-	-	-	-	-
Six years later	11,958	18,051	13,716	9,649	-	-	-	-	-	-
Seven years later	11,811	17,236	12,997	-	-	-	-	-	-	-
Eight years later	11,786	16,920	-	-	-	-	-	-	-	-
Nine years later	11,828	-	-	-	-	-	-	-	-	-
(7) Change in estimated incurred claims and expenses, end of policy year	(15,857)	(6,038)	(12,140)	(17,304)	(12,052)	(12,608)	(15,619)	(12,326)	704	-

* The unallocated expenses line item for 2004 and 2003 includes \$1,927,432 and \$4,182,106, respectively, related to unallocated loss adjustment expense (ULAE) that applies to 2004 and prior policy years.

Other Supplemental Information

Michigan Municipal Risk Management Authority

Statement of Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract (in thousands)

	Fiscal and Policy Years Ended June 30						
	2008			2007			
	Auto			Auto			
	Liability	Property	Physical Damage	Total	Liability	Property	Physical Damage
Unpaid claims and claims adjustment expenses liability -							
Beginning of year	\$ 87,557	\$ 1,554	\$ 11	\$ 89,122	\$ 94,891	\$ 1,201	\$ 99
Incurred claims and claims adjustment expenses:							
Provision for insured events of the current fiscal year	28,036	5,023	156	33,215	24,110	3,519	36
Change in provision for insured events of prior fiscal years	(23,299)	(109)	8	(23,400)	(18,862)	(4)	(84)
Total incurred claims and claims adjustment expenses	4,737	4,914	164	9,815	5,248	3,515	(48)
Payments:							
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	(525)	(2,750)	(50)	(3,325)	(461)	(2,213)	(25)
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	(9,962)	(968)	(18)	(10,948)	(12,121)	(949)	(15)
Total payments	(10,487)	(3,718)	(68)	(14,273)	(12,582)	(3,162)	(40)
Unpaid claims and claims adjustment expenses - End of year	\$ 81,807	\$ 2,750	\$ 107	\$ 84,664	\$ 87,557	\$ 1,554	\$ 11
							\$ 89,122